

---

## EEI/NRDC JOINT STATEMENT TO STATE UTILITY REGULATORS

February 12, 2014

### Introduction

The future of America's vital electricity sector will continue to be a promising one as long as regulatory policies are fair and forward looking. As we move into a new age of innovation, the use of the grid is evolving, facilitating power flows in two directions, so that customers can engage in both purchases and sales of energy, and provide other services such as balancing, voltage support, and voluntary load management. Innovation is providing new incentives for customers to use the grid more effectively and efficiently, optimizing the use of existing infrastructure.

Anticipating as much, we launched a joint campaign in 2008 to accelerate energy efficiency gains and encourage utilities to undertake a host of other cost-effective and clean energy resources and grid enhancements. Together, these changes have done much to promote clean energy and efficient electricity usage, but they also have highlighted the vital need for regulatory policies that will support fair and adequate cost recovery for maintaining the evolving grid.

Recovering the fixed costs of the grid is becoming more challenging. While customers are discovering new opportunities that enhance the value that the grid brings to them, policy makers should rethink how utility costs are recovered, with consideration needed for new rate designs and new approaches that balance the desire to promote innovation while still enabling recovery of the capital investment that recognizes the value of the grid to all customers and their new uses of the grid. Traditional rate regulation can at times incentivize utility retail sales growth; in turn, utilities sometimes leverage that growth between rate cases to meet system-wide needs for cost recovery and capital investment.

Utility customers value electricity for the comforts, conveniences, and productivity it enables such as lighting, cooling, and mechanical drive provided reliably and just-in-time. In 2008, we outlined measures that would keep utilities whole for recovery of authorized non-fuel costs as electricity sales volumes fluctuated. We reaffirm that goal.

If properly done, utilities can adapt to the changing needs of customers, modern electricity systems, and technologies, while continuing to deliver safe and reliable service, maintain financial integrity by allocating costs of service fairly among customers, and continuously improve environmental performance. But utility regulatory and business model changes are necessary to accelerate progress and ensure transparent and equitable attainment of these objectives.

The recommendations listed below reflect our strong belief in the promise of new technologies for enhancing grid performance while lowering emissions (e.g., communications infrastructure, smart grid technologies, distributed generation, demand response, and upgraded controls). This innovation surge is viewed as having potential for grid improvement (including reliability and cost-effectiveness), and increased value of connectivity. Innovation does not threaten the grid; collectively, technology advances are making the nation's transmission and distribution systems more important than ever as drivers of economic and environmental progress.

**Key recommendations:**

1. The retail electricity distribution business should not be viewed or regulated as if it were a commodity business dependent on growth in electricity use to keep its owners financially whole. Instead, utility businesses should focus on meeting customers' energy *service* needs. Therefore, recovery of utilities' non-fuel costs should reflect their costs of maintaining and improving the electricity grid, and should not be tied to levels of retail commodity sales.
2. Traditional rate regulation allows non-fuel revenues to grow between rate cases in proportion to growth in commodity sales, which averaged more than twice the rate of population growth between 1973 and 2000 before slowing significantly. If regulators break the linkage between cost recovery and commodity sales, they should provide for reasonable and predictable annual adjustments in utilities' authorized non-fuel revenue requirements.
3. "Net metering" programs in wide use across the United States have helped valuable "distributed" technologies such as rooftop solar power gain traction and improve performance, but additional approaches are needed now. Although such generation can reduce a grid's needs for central station generation and other infrastructure, it typically does not eliminate its owners' needs for grid services. For example, solar generation at a residence typically does not align perfectly with the occupants' energy use, requiring some use of the grid as the equivalent of a battery.

When they use distribution and transmission systems to import and export electricity, owners and operators of on-site distributed generation must provide reasonable cost-based compensation for the utility services they use, while also being compensated fairly for the services they provide. Customers deserve the opportunity to interconnect distributed generation to the grid quickly and easily.

4. Utilities deserve assurances that recovery of their authorized non-fuel costs will not vary with fluctuations in electricity use. Customers deserve assurances that costs will not be shifted unreasonably to them from other customers. Rate designs will continue to develop that reward customers for using electricity more efficiently. Examples include, but are not limited to, real-time pricing and variable demand charges that take advantage of digital meter capabilities where available.
5. It is appropriate to consider expanding investor-owned utilities' earnings opportunities to include performance based incentives tied to benefits delivered to their customers by cost-effective initiatives to improve energy efficiency, integrate clean energy generation, and improve grids. In general, business models should include profit opportunities linked to utilities' performance in delivering safe, reliable, affordable, and clean energy services.

6. We will work together to ensure that energy efficiency services reach underserved populations, including the increased deployment of utility programs focused on affordable multi-family housing.
7. We reaffirm our goal of “helping electricity users take advantage of all cost-effective energy efficiency opportunities through an integrated combination of financial incentives to customers and minimum standards governing the performance of buildings and equipment,” and we rededicate ourselves to the five key elements of that campaign.
8. We also reaffirm our call to state regulators, when presented with a reasonable business case by utilities, to “support significantly enhanced utility investment in ‘smart meters’ and a ‘smart grid’ that focuses on delivering new energy management tools to customers, enabling increased energy efficiency, supporting efficient new technology such as plug-in electric vehicles, and reducing the cost of integrating renewable energy generation with variable output into resource portfolios.”

###